

Message Text

CONFIDENTIAL

PAGE 01 BONN 04334 171733Z

73

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C O N F I D E N T I A L BONN 04334

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN ECONOMIC POLICY

REF: BONN 3720

1. SUMMARY. ECONOMICS MINISTRY OFFICIALS BELIEVE THAT CURRENT INDICATIONS DO NOT YET PERMIT EVEN TENTATIVE CONCLUSIONS WHETHER THE BOTTOM OF THE GERMAN BUSINESS CYCLE HAS BEEN REACHED. THEY ARE CONVINCED, HOWEVER, THAT THE DOMESTIC UPSWING WILL START LATER IN THE YEAR. THE REAL QUESTION IN THEIR MIND IS WHETHER THE UPSWING WILL GAIN FURTHER MOMENTUM OR EVEN MAINTAIN ITSELF IN 1976 IN THE LIKELY ABSENCE OF ANY REINFORCEMENT FROM THE EXPORT SIDE. END SUMMARY.

2. KEY ECONOMIC MINISTRY OFFICIALS DISCOUNT AS PREMATURE RECENT TALK THAT SCATTERED STATISTICS ARE ALREADY SIGNALLING THE START OF AN UPSWING IN THE GERMAN ECONOMY. INSTEAD THEY FEEL THAT A FAIR READING OF THE AVAILABLE EVIDENCE SIMPLY DOES NOT YET ALLOW EVEN TENTATIVE CONCLUSIONS ONE WAY OR THE OTHER AND
CONFIDENTIAL

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PAGE 02 BONN 04334 171733Z

THAT SUCH CONCLUSIONS WILL NOT BE POSSIBLE FOR AT

LEAST ANOTHER 6 TO 8 WEEKS. THIS DOES NOT MEAN, HOWEVER, THAT THE MINISTRY HAS ANY POLICY DIFFERENCES WITH THOSE WHO ARE ALREADY SEEING SIGNS OF AN UPSWING. LIKE THEM, THE MINISTRY IS OPPOSED TO ANY FURTHER STIMULATIVE MEASURES BY THE GOVERNMENT OR ANY RADICAL FURTHER EASING OF MONETARY POLICY BY THE BUNDESBANK AT THIS TIME.

3. LIKE FINANCE MINISTRY OFFICIALS, KEY ECONOMIC MINISTRY OFFICIALS ARE CONVINCED THAT THE GERMAN ECONOMIC UPSWING WILL START SOMETIME LATER THIS YEAR. BUT WHILE THEY CONCEDE THAT THE PICTURE GIVEN US BY FINANCE MINISTRY OFFICIALS FOR 1976 (SEE REFTEL) IS A POSSIBLE AND MAYBE EVEN THE MOST LIKELY ONE, ECONOMIC MINISTRY OFFICIALS STRESS THAT IT STILL REMAINS TO BE SEEN WHETHER THE GERMAN UPSWING, ONCE IT STARTS, CAN MAINTAIN ITSELF AND GAIN SIGNIFICANT FURTHER MOMENTUM IN 1976. THEY POINT OUT THAT FOR THE FIRST TIME AN ECONOMIC UPSWING IN GERMANY IS NOT LIKELY TO BE HELPED BY ADDITIONAL STIMULUS FROM THE EXPORT SIDE AND STRUCTURAL PROBLEMS OF OVEREXPANSION IN SOME IMPORTANT INDUSTRIES--PARTICULARLY CONSTRUCTION--WILL PERSIST AND PREVENT STIMULATIONS FROM THAT SIDE.

4. WHILE THEIR MORE NUANCED ECONOMIC OUTLOOK FOR 1976 LEADS ECONOMIC MINISTRY OFFICIALS TO DESIRE TO POSTPONE DECISIONS ON 1976 BUDGET POLICY FOR AS LONG AS POSSIBLE, THEY SEE THE DILEMMAS BETWEEN ELECTION YEAR BUDGET CUTTING, TAX INCREASES OR INCREASED DEFICIT FINANCING IN SIMILAR TERMS AS THEIR FINANCE MINISTRY COLLEAGUES (SEE REFTEL). THIS IS PARTICULARLY SO BECAUSE THEY FEAR THAT ANY EXPANSIONARY EFFECTS OF GREATER DEFICITS, EVEN IF THIS SHOULD PROVE DESIRABLE IN 1976, COULD BE MORE THAN OFFSET BY THE PSYCHOLOGICAL REPERCUSSIONS OF "FISCAL IRRESPONSIBILITY" ON BUSINESS AND CONSUMER CONFIDENCE. UNLIKE FINANCE MINISTRY OFFICIALS, THEY DO NOT AS YET SEEM TO HAVE RECEIVED AN EVEN PRELIMINARY POLICY GUIDANCE ON THESE CRUCIAL POLITICAL CHOICES FROM ECONOMICS MINISTER FRIDERICHS WHO, WHILE NOT AS DIRECTLY CONCERNED AS APEL, IS

CONFIDENTIAL

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PAGE 03 BONN 04334 171733Z

KEEPING HIS OPTIONS OPEN.
HILLENBRAND

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